



AUDITOR-GENERAL
SOUTH AFRICA

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Auditor-General of South Africa

Harry Gwala District Municipality - audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Harry Gwala District Municipality

Report on the consolidated and separate financial statements

Introduction

1. I audited the consolidated and separate financial statements of the Harry Gwala District Municipality and its municipal entity set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2016, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Harry Gwala District Municipality and its municipal entity as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. The municipality is a defendant in various claims received from suppliers for services rendered as disclosed in note 37 to the consolidated financial statements. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result had been made in the financial statements.

Material losses and impairments

9. As disclosed in note 44 to consolidated financial statements, the municipality incurred material losses of R22,40 million (2014-15: R13,78 million) as a result of water distribution losses. The losses arose from the deterioration of the water reticulation networks; unmetered water connections; burst pipes; and unauthorised consumption. Water losses were made up of technical losses of R18,59 million (2014-15: R5,4 million) and non-technical losses of R3,77 million (2014-15: R8,38 million).
10. Trade and other receivables from exchange transactions as disclosed in note 7 to the consolidated financial statements, was impaired by R119,94 million (2014-15: R98,05 million). This was a result of an annual review of the collectability of consumer debts.

Financial sustainability

11. There is significant pressure on the municipality's cash reserves and its current liabilities exceeded current assets by R157,23 million (2014-15: R89,79 million) as disclosed in note 46 to the consolidated financial statements. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate in the foreseeable future.

Additional matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the consolidated financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the objective, which is to improve the coverage; quality; efficiency and sustainability of water and sanitation in all urban and rural communities. The objective was presented in the annual performance report of the municipality for the year ended 30 June 2016.
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information.
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not identify any material findings on the usefulness and reliability of the reported performance information for the objective, which is to improve the coverage; quality; efficiency and sustainability of water and sanitation in all urban and rural communities.

Additional matters

20. I identified no material findings on the usefulness and reliability of the reported performance information for the selected objective; however, I draw attention to the following matters:

Achievement of planned targets

21. The annual performance report on pages x to x includes information on the achievement of the planned targets for the year.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the objective, which is to improve the coverage; quality; efficiency and sustainability of water and sanitation in all urban and rural communities. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality and its municipal entity complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Expenditure management

24. Reasonable steps were not taken by the municipality and municipal entity to prevent irregular expenditure, as required by section 62(1)(d) and 95(d) of the MFMA.
25. Reasonable steps were not taken by the municipality to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

26. Irregular expenditure incurred by the municipal entity was not investigated to determine if any person is liable for the expenditure as required by municipal budget and reporting regulations 75(1).

Internal control

27. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

28. Leadership did not adequately monitor their audit action plan to confirm that effective measures were taken to address their previous findings on compliance with key legislation relating to expenditure management and consequence management.

Other reports

29. I draw attention to the following engagements that could potentially have an impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are in progress.

Investigations

30. Independent consulting firms were investigating allegations, of possible misappropriation of funds and irregularities in the contract management process at the request of the KwaZulu-Natal Provincial Treasury. The investigations covered the periods 1 July 2006 to 30 June 2013 and 1 July 2010 to 30 June 2011, respectively.

Auditor - General

Pietermaritzburg

21 December 2016



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